



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #34
LAKE COUNTY

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2012
Release Date: July 11, 2013**

Summary of Findings:
Total this audit: 5
Total last audit: 7
Repeated from last audit: 5

SYNOPSIS

The Regional Office of Education #34:

- did not have sufficient internal controls over the financial reporting process;
- did not apply appropriate accounting principles;
- did not have adequate controls over purchased services expenditures;
- did not have adequate internal controls over reporting or accurate expenditure reports; and
- did not have adequate documentation for payroll expenditures.

{Revenues and expenditures are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #34
LAKE COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2012

	FY 2012	FY 2011
TOTAL REVENUES	\$7,049,218	\$7,835,861
Local Sources	\$1,711,713	\$1,673,575
% of Total Revenues	24.28%	21.36%
State Sources	\$3,996,180	\$3,990,839
% of Total Revenues	56.69%	50.93%
Federal Sources	\$1,341,325	\$2,171,447
% of Total Revenues	19.03%	27.71%
TOTAL EXPENDITURES	\$6,924,503	\$7,885,382
Salaries and Benefits	\$3,058,509	\$3,327,562
% of Total Expenditures	44.17%	42.20%
Purchased Services	\$1,111,829	\$1,176,969
% of Total Expenditures	16.06%	14.93%
All Other Expenditures	\$2,754,165	\$3,380,851
% of Total Expenditures	39.77%	42.87%
TOTAL NET ASSETS	\$2,677,935	\$2,553,220
INVESTMENT IN CAPITAL ASSETS	\$20,951	\$25,970
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Roycealee Wood
Currently: Honorable Roycealee Wood

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #34 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect and correct financial statement misstatements and disclosure omissions in a timely manner.

In their review of the Regional Office's accounting records, auditors noted numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles. The Regional Office did not have proper controls in place over the preparation of financial statements to ensure that they are presented in accordance with generally accepted accounting principles. (Finding 12-1, pages 12-13) **This finding was first reported in 2010.**

The auditors recommended that, as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #34 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education #34's activities and operations.

The Regional Office of Education #34 responded that it agrees with the finding and will continue to implement comprehensive preparation and review procedures to insure

that financial statements including disclosures are complete and accurate. The Regional Office stated that included in the corrective activities are continued consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the Lake ROE has conducted additional training regarding successful use of the Lake ROE's financial management software and has contracted with a part-time business consultant who is reviewing Lake ROE business procedures and controls. Finally, in an effort to streamline preparation of comprehensive financial statements, the Lake ROE has begun consolidating multiple installations of the financial management software into one cohesive system by the end of Fiscal Year 2013. (For previous Regional Office response, see Digest Footnote #1.)

FAILURE TO APPLY APPROPRIATE ACCOUNTING PRINCIPLES

The Regional Office of Education #34 did not apply appropriate accounting principles.

Generally accepted accounting principles (GAAP) require that a lease be capitalized if certain criteria are met. In addition, sound internal controls require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be properly maintained.

The Regional Office of Education #34 did not properly record several transactions and, as a result, did not properly apply the appropriate generally accepted accounting principles (GAAP). The Regional Office of Education #34 capitalizes items costing \$5,000 or more. The capitalization of assets and related depreciation expense were recognized in the governmental and business-type activities of the government-wide Statement of Net Assets. Based on review of the schedule of capitalized assets and related depreciation (schedule), auditors noted the following:

- Items costing less than \$5,000 were included in the schedule.
- Two of the three capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations.
- One of the three capital lease equipment items was not included in the schedule.

For monitoring purposes, the Regional Office of Education #34 maintains a fixed asset listing with equipment items costing \$500 and above. The Regional Office of Education #34 did not properly include and exclude items above and below the capitalization threshold of \$5,000 when calculating and recording fixed asset additions and depreciation expense.

In addition, the Regional Office of Education #34 did not have personnel with adequate training and knowledge to record capital lease transactions in accordance with GAAP. (Finding 12-2, pages 14-15) **This finding was first reported in 2010.**

Auditors recommended that the Regional Office of Education #34 should establish procedures to ensure that transactions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP. The fixed asset schedule should also be completed to include all capital lease items, and only capital assets above the capitalization threshold.

The Regional Office responded that it agrees with the finding and has posted recommended adjusting entries to record transactions in accordance with GAAP. The Regional Office noted that in addition, previous adjustments made to the fixed assets/inventory schedule and reporting procedures were further reviewed and refined as a part of a recently contracted business consultant's scope of work. The ROE noted that this review and refinement were accompanied by desk-side training of staff involved with fixed assets/inventory schedules and/or calculation of depreciation schedules. (For previous Regional Office response, see Digest Footnote #2.)

INADEQUATE CONTROLS OVER PURCHASED SERVICES EXPENDITURES

The Regional Office of Education #34 did not have adequate controls over purchased services expenditures.

Good internal controls require that all contracts be executed prior to services being performed and payments being made to contractors. During their review of expenditures, auditors noted that for 2 of 6 contracts selected for testing, services were performed and paid by the Educational Services Division (ESD) prior to the ESD obtaining a signed contract with the consultant.

Failure to timely maintain contracts may result in services being provided that are inconsistent with program goals and activities, inadequate protection of the Regional Office of Education #34's interests, and unallowed costs charged to programs. Proper controls have not been established to ensure that all contractual payments are supported by signed contracts. (Finding 12-3, page 16) **This finding was first reported in 2008.**

The auditors recommended that the Regional Office of Education #34 should establish procedures to ensure all program costs are sufficiently documented and adequately supported. All consultant agreements should be supported by a current written contract with detailed scope of services and rates of compensation prior to service being performed.

The Regional Office of Education #34 responded that it agrees with the finding and will continue to refine and monitor internal procedures to ensure all consultant agreements are supported by a current, timely written contract with scope of services and rates of compensation. The ROE noted that it has developed a system to document and generate supporting materials to track hours worked and services provided. (For previous Regional Office response, see Digest Footnote #3.)

INADEQUATE INTERNAL CONTROLS OVER REPORTING AND INACCURATE EXPENDITURE REPORTS

The Regional Office of Education #34 did not have adequate internal controls over reporting or accurate expenditure reports.

Good business practices dictate that proper internal controls, such as management review and approval of expenditure reports submitted to granting agencies, should be in place. Amounts submitted on grant expenditure reports should be in agreement and reconcile with the general ledger.

The Regional Office of Education #34 did not have adequate controls in place to ensure amounts submitted on grant expenditure reports are in agreement and reconcile with the general ledger. Auditors, during their review of expenditure reports, noted the following:

- The final expenditure report submitted for the Beginning Teacher Induction Pilot Program grant, which was received from the Illinois State Board of Education, was inaccurately reported. When compared to the expenditures recorded in the general ledger, most categories were over reported while the purchased services category was under reported by \$330. In total, actual expenditures recorded were less than the amount reported by \$10,660.
- The final expenditure report submitted for the ARRA Technology grant, which was received from the Illinois State Board of Education, was inaccurately reported. When compared to the expenditures recorded in the general ledger, all categories were inaccurately reported. This was due to a lack of reclassifications made in the general ledger. In total, actual expenditures agreed to the amounts reported.

The Regional Office of Education #34 has inadequate internal controls in place to ensure that expenditure reports submitted to granting agencies agree and reconcile to the general ledger. Therefore, expenditure reports submitted did not agree and reconcile with amounts reported in the general ledger. (Finding 12-4, pages 17-18)

The auditors recommended that the Regional Office of Education #34's management should review expenditure reports and supporting documentation prior to submission to granting agencies to ensure that expenditures were actually incurred, allowable, and properly classified. Supporting expenditure documentation and indication of management's review should be included with a copy of the report and available for subsequent internal and external review and analysis. In addition, Regional Office of Education #34 should contact the Illinois State Board of Education to determine the need to amend its expenditure reports.

The Regional Office of Education #34 responded that it agreed with the finding. The Regional Office noted that year-end errors in expenditure reports were due to loss of critical expertise in expenditure report preparation associated with personnel turbulence, to inexperience in both preparing and reviewing staff members regarding expenditure reports, and failures to reconcile (with documentation) expenditures to budgeted categories and amounts. The ROE noted that as a result, management controls have been put in place to ensure full supporting documentation is available for all expenditure reports and that expenditures align with budgeted categories. The ROE stated that it has filed an amended expenditure report for the Beginning Teacher Induction Pilot Program and has returned unexpended funds to the Illinois State Board of Education (ISBE). The Regional Office also responded that since expenditures were allowable and equaled revenues for the ARRA Technology Grant, no revision of the final expenditure report was required by ISBE.

INADEQUATE DOCUMENTATION FOR PAYROLL EXPENDITURES

The Regional Office of Education #34 did not have adequate documentation for payroll expenditures.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, established principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that expenditures must be allocable, reasonable, and supported by adequate documentation.

Part 4 of the OMB Circular A-133 Compliance Supplement for the Department of Education prescribes that employee time and effort distribution records must be maintained to document the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.

During review of payroll expenditures, auditors noted that salaries and benefits for salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared for the months of July 2011 to December 2011 to account for actual time charged by program. For the months of January 2012 to June 2012, the Regional Office of Education #34 began preparing time and effort reports, however, the Regional Office did not compare actual time and effort to the budgeted allocations. Therefore, adjustments were not made to correct differences or errors in actual time versus the charged budgeted allocations. The salaries and benefits expenditures for the Regional Office of Education #34 for fiscal year 2012 totaled \$671,782 for Title I- School Improvement and Accountability.

The Regional Office of Education #34 has not established policies and procedures regarding salaries and benefits that incorporate the requirements of Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. In addition, the Regional Office's staff did not anticipate significant differences between the budgeted and actual time spent by program and therefore did not see the need to summarize time charges and re-allocate salary costs based on actual time spent. (Finding 12-5, pages 19-22) **This finding was first reported in 2010.**

Auditors recommended that the Regional Office of Education #34 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or time and effort reports by program. The Regional Office should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

The Regional Office of Education #34 responded that it agrees with the finding. While the ROE had begun implementation of corrective action regarding this repeat finding, the corrective actions did not encompass all of the requirements of OMB Circular A-87. The Regional Office has developed and implemented time and effort accounting policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and

procedures require staff involved in multiple programs to submit time sheets by program or time and effort reports by program.

The ROE also stated that it has also established a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program will be reviewed based on the time devoted and will be identified specifically to the performance of the applicable programs. These employee cost allocation summaries are reviewed in conjunction with affected program monthly and quarterly expenditure reports. Additionally, semi-annual certifications for employees who work solely on federal grant programs stating that they had worked full time on those programs are now being prepared. (For previous Regional Office response, see Digest Footnote #4.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #34's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Winkel, Parker & Foster, CPA PC were our special assistant auditors.

DIGEST FOOTNOTES

#1: Controls Over Financial Statement Preparation – Previous Regional Office Response

In its prior response in 2011, the Regional Office of Education #34 responded that it agrees with the finding and will continue to implement comprehensive preparation and review procedures to insure that financial statements including disclosures are complete and accurate. The Regional Office noted that included in the corrective activities are contracting with a private Certified Public Accountant firm to provide independent review, consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the Lake ROE has conducted additional

training regarding successful use of the Lake ROE's financial management software and has contracted with a part-time business consultant who is reviewing Lake ROE business procedures and controls. Finally, in an effort to streamline preparation of comprehensive financial statements, the Lake ROE has begun consolidating multiple installations of the financial management software into one cohesive system by the end of Fiscal Year 2013.

#2: Failure to Apply Appropriate Accounting Principles – Previous Regional Office Response

In its prior response in 2011, the Regional Office responded that it agrees with the finding and will post recommended adjusting entries to record transactions in accordance with GAAP. The Regional Office noted that in addition, previous adjustments made to the fixed assets/inventory schedule and reporting procedures will be further reviewed and refined as a part of a recently contracted business consultant's scope of work. The ROE also noted that this review and refinement will be accompanied by desk-side training of staff involved with fixed assets/inventory schedules and/or calculation of depreciation schedules.

#3: Inadequate Controls Over Purchased Services Expenditures – Previous Regional Office Response

In its prior response in 2011, the Regional Office of Education #34 responded that it agrees with the finding and will refine internal procedures to ensure all consultant agreements are supported by a current, timely written contract with scope of services and rates of compensation. The ROE noted that it has developed a system to document and generate supporting materials to track hours worked and services provided.

#4: Inadequate Documentation for Payroll Expenditures – Previous Regional Office Response

In its prior response in 2011, the Regional Office of Education #34 responded that it agrees with the finding. While the ROE had begun implementation of corrective action regarding this repeat finding, the corrective actions did not encompass all the requirements of OMB Circular A-87. The Regional Office has developed and implemented time and effort accounting policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures require staff involved in multiple programs to submit time sheets by program or time and effort reports by program. The ROE will also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program will be reviewed based on the time devoted and will be identified specifically to the performance of the applicable programs. Additionally, semi-annual certifications for employees who work solely on federal grant programs stating that they had worked full time on those programs are now being prepared.